

# 41A720S

# Kentucky S Corporation Income and License Tax Return

➤ *See separate instructions.*

1997

**Commonwealth of Kentucky** Taxable period beginning \_\_\_\_\_, 1997, and ending \_\_\_\_\_, 199\_\_.

**IMPORTANT:** Failure to enter taxable period above may result in a request for a delinquent return.

<i>Use preaddressed label; otherwise print or type.</i>	Name of S Corporation				<b>B</b> Kentucky Account Number _____
	Number and Street				
<b>A</b> S Corporation Date of Election	City	State	ZIP Code	Telephone Number	<b>C</b> Federal Identification Number ____-____
	State and Date of Incorporation	Principal Business Activity in Kentucky		Kentucky Business Code No.	<b>D</b> Federal Business Code Number _____

**E** Check if applicable: ☐ Initial return ☐ Final return ☐ Amended return ☐ Short-period return ☐ Change of name/address

**PART I—ORDINARY INCOME (LOSS) COMPUTATION**

1. Federal ordinary income (loss) (Form 1120S, line 21) .....			13. Extension payment .....				
ADDITIONS:			14. Prior year's credit .....				
2. State taxes .....			15. License tax overpayment (Part III, line 23) .....				
3. Transition amount (income) .....			16. <b>Income tax due</b> .....				
4. <b>Total</b> (add lines 1 through 3) .....			17. <b>Income tax overpayment</b> .....				
SUBTRACTIONS:			18. Credited to 1997 license tax .....				
5. Federal jobs credit .....			19. Claimed on 1998 estimate .....				
6. Transition amount (deduction) .....			20. <b>Refunded</b> .....				
7. <b>Ordinary income (loss)</b> (line 4 less lines 5 and 6) .....			<b>PART III—LICENSE TAX COMPUTATION</b>				
			1. Capital stock .....				
			2. Paid-in or capital surplus .....				

## PART II—INCOME TAX COMPUTATION

1. Taxable income (see instructions) ....				4. Retained earnings—unappropriated .....		
2. Less statutory exemption .....	(\$25,000)			5. Mortgages, notes payable in less than 1 year .....		
3. Net capital gain .....				6. Advances by affiliated companies .....		
4. Less statutory exemption .....	(\$25,000)			7. Mortgages, notes payable in 1 year or more ..		
5. Enter lesser of line 2 or line 4 .....				8. Other liabilities .....		
6. Apportionment fraction (if applicable) .....			%	9. Intercompany accounts .....		
7. Taxable income .....				10. Other capital accounts .....		
	<b>Taxable Net Income</b>	<b>Rate</b>		11. Less monies borrowed for inventory .....		
8. (a) First \$25,000 .... x 4%				12. Less KRS 136.071 deduction .....		
(b) Next \$25,000 .... x 5%				13. <b>Total capital</b> (combine lines 1 through 12) ....		%
(c) Next \$50,000 .... x 6%				14. Apportionment fraction (attach Sch. A if applicable)		%
(d) Next \$150,000 .. x 7%				15. <b>Capital employed subject to tax</b> .....		
(e) All over \$250,000 .. x 8.25%				16. <b>Tax before credit</b> (line 15 multiplied by .0021)		
9. <b>Income tax liability</b> (add lines 8(a) through (e)) .....				17. License tax credit .....		
10. Enterprise zone tax credit .....				18. <b>License tax liability</b> .....		
11. <b>Net income tax liability</b> .....				19. Extension payment .....		
				20. Income tax overpayment (Part II, line 18) .....		
				21. <b>License tax due</b> .....		
				22. <b>License tax overpayment</b> .....		
				23. Credited to 1997 income tax .....		
				24. Credited to 1998 .....		
				25. <b>Refunded</b> .....		

## TAX PAYMENT

Income	License
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## SUMMARY

Interest	Penalty	TOTAL

**Make check(s) payable to Kentucky State Treasurer. Mail return with payment to Kentucky Revenue Cabinet, Frankfort, Kentucky 40620.**

I, the undersigned, declare under the penalties of perjury, that I have examined these returns, including all accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct and complete.

Signature of principal officer or chief accounting officer

Date \_\_\_\_\_

Name and Social Security or federal identification number of person or firm preparing return

➤ **FEDERAL FORM 1120S, PAGES 1, 3 AND 4, MUST BE ATTACHED.**

**SCHEDULE Q—KENTUCKY S CORPORATION QUESTIONNAIRE****Note:** Do not enter name and account numbers if entered on Form 720S on reverse.

Name of S Corporation	Federal Identification No. ____ — ____	Kentucky Account No. _____
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**IMPORTANT:** Questions 4—12 must be completed by all corporations. If this is the corporation's initial return or if the corporation did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

1. Indicate whether: (a) ☐ completely new business; (b) ☐ successor to previously existing business which was organized as: (1) ☐ corporation; (2) ☐ partnership; (3) ☐ sole proprietorship; or (4) ☐ other \_\_\_\_\_

If successor to previously existing business, give name, address and federal I.D. number of the previous business organization.

\_\_\_\_\_

\_\_\_\_\_

2. List the following **Kentucky** account numbers. Enter N/A for any number not applicable.

Employer Withholding \_\_\_\_\_

Sales and Use Tax Permit \_\_\_\_\_

Consumer Use Tax \_\_\_\_\_

Unemployment Insurance \_\_\_\_\_

Coal Severance and/or Processing Tax \_\_\_\_\_

3. If a foreign corporation, enter the date qualified to do business in Kentucky. \_\_\_\_ / \_\_\_\_ / \_\_\_\_

4. The corporation's books are in care of: \_\_\_\_\_
- \_\_\_\_\_

5. Did the corporation at any time during the taxable year own 50 percent or more of the voting stock of another corporation, either domestic or foreign? ☐ Yes ☐ No

6. Did any corporation, individual, partnership, trust or association at any time during the taxable year own 50 percent or more of the corporation's voting stock? ☐ Yes ☐ No  
If "Yes," attach a schedule listing the name, address and federal I.D. number of the entity.

7. Is the corporation a partner in a partnership doing business in Kentucky? ☐ Yes ☐ No  
If "Yes," list name and federal I.D. number of the partnership \_\_\_\_\_

Did the corporation have property or payroll in Kentucky, other than partnership property or payroll? ☐ Yes ☐ No

8. Was this return prepared on: (a) ☐ cash basis, (b) ☐ accrual basis, (c) ☐ other \_\_\_\_\_

9. Is the corporation a public service corporation subject to taxation under KRS 136.120? ☐ Yes ☐ No

10. (a) Did the corporation file a Kentucky intangible property tax return for January 1, 1998? ☐ Yes ☐ No

- (b) Did the corporation file a Kentucky tangible personal property tax return for January 1, 1998? ☐ Yes ☐ No

11. Is the corporation currently under audit by the Internal Revenue Service? ☐ Yes ☐ No

If "Yes," enter years under audit \_\_\_\_\_

If the Internal Revenue Service has made final and unappealable adjustments to the corporation's taxable income which have not been reported to this Cabinet, check here ☐ and file an amended Form 720S, Kentucky S Corporation Income and License Tax Return, for each year adjusted and attach a copy of the final determination.

**OFFICER INFORMATION (Failure to Provide Requested Information May Result in a Penalty)**

President's Name: \_\_\_\_\_

President's Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

President's Social Security Number: \_\_\_\_\_

Percent of Stock Owned: \_\_\_\_\_%

Vice President's Name: \_\_\_\_\_

Vice President's Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Vice President's Social Security Number: \_\_\_\_\_

Percent of Stock Owned: \_\_\_\_\_%

Treasurer's Name: \_\_\_\_\_

Treasurer's Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Treasurer's Social Security Number: \_\_\_\_\_

Percent of Stock Owned: \_\_\_\_\_%

Secretary's Name: \_\_\_\_\_

Secretary's Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Secretary's Social Security Number: \_\_\_\_\_

Percent of Stock Owned: \_\_\_\_\_%

**SCHEDULE K—SHAREHOLDERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Specific Instructions for Each Line Item)**

<b>SECTION I</b>		<b>(a) Pro Rata Share Items</b>	<b>(b) Total Amount</b>
<b>Income (Loss) and Deductions</b>			
1.	Ordinary income (loss) from trade or business activities (page 1, line 7) .....	1	
2.	Net income (loss) from rental real estate activities (attach federal Form 8825) .....	2	
3.	(a) Gross income from other rental activities .....	3(a)	
	(b) Less expenses (attach schedule) .....	(b)	
	(c) Net income (loss) from other rental activities .....	(c)	
4.	Portfolio income (loss):		
	(a) Interest income .....	4(a)	
	(b) Dividend income .....	(b)	
	(c) Royalty income .....	(c)	
	(d) Net short-term capital gain (loss) (attach federal Schedule D (Form 1120S)) .....	(d)	
	(e) Net long-term capital gain (loss) (attach federal Schedule D (Form 1120S)) .....	(e)	
	(f) Other portfolio income (loss) (attach schedule) .....	(f)	
5.	Net gain (loss) under Section 1231 (other than due to casualty or theft) (attach federal Form 4797) .....	5	
6.	Other income (loss) (attach schedule) .....	6	
7.	Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH) .....	7	
8.	Section 179 expense deduction (attach federal Form 4562) .....	8	
9.	Deductions related to portfolio income (loss) (attach schedule) .....	9	
10.	Other deductions (attach schedule) .....	10	
<b>Investment Interest</b>			
11.	(a) Interest expense on investment debts .....	11(a)	
	(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above .....	(b)(1)	
	(2) Investment expenses included on line 9 above .....	(2)	
<b>Credits</b>			
12.	Kentucky Unemployment Tax Credit (attach Schedule UTC) .....	12	
13.	Recycling and Composting Equipment Tax Credit (attach <i>approved</i> Schedule RC) .....	13	
<b>Other Items</b>			
14.	(a) Type of Section 59(e)(2) expenditures ➤ .....	14(a)	
	(b) Amount of Section 59(e)(2) expenditures .....	(b)	
15.	Tax-exempt interest income .....	15	
16.	Other tax-exempt income .....	16	
17.	Nondeductible expenses .....	17	
18.	Total property distributions (including cash) other than dividends reported on line 20 below .....	18	
19.	Other items and amounts required to be reported separately to shareholders (attach schedule) .....	19	
20.	Total dividend distributions paid from accumulated earnings and profits .....	20	
<b>SECTION II—Computation of Nonresident Shareholder's Taxable Percentage</b>			
1.	S corporation's Kentucky gross receipts .....	1	
2.	S corporation's total gross receipts .....	2	
3.	Nonresident shareholder's taxable percentage (line 1 divided by line 2) .....	3	%

**SCHEDULE K INSTRUCTIONS**

**General Instructions**—Schedule K, Form 720S, is a summary schedule of all the shareholders' shares of the S corporation's income, deductions, credits, etc. Shareholders are liable for income tax on their share of the corporation's income (reduced by any federal tax paid by the S corporation on the income). Complete all applicable lines entering the total pro rata share amount for each item listed. Federal instructions for Form 1120S and federal Schedule K provide additional information which will assist the S corporation in completing Schedule K, Form 720S.

**Passive Activity Limitations**—IRC Section 469 provides for limitations on losses and deductions that shareholders may claim from "passive activities." The limitations apply to the shareholders of the S corporation and not the S corporation itself. Generally, a passive activity is any activity of the S corporation which involves the conduct of any trade or business in which a

shareholder does not materially participate and any rental activity even if the shareholder materially participates. The passive activity rules provide that losses from passive activities can generally be applied only against income from passive activities. Thus, passive losses cannot be applied against income from salaries, wages, professional fees, or a business in which the shareholder materially participates; or against portfolio income. Generally, portfolio income includes all gross income, other than income derived in the ordinary and regular course of a trade or business, that is attributable to interest; dividends; royalties; income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment.

## Section I—Specific Instructions

**Line 1**—Enter ordinary income (loss) from trade or business activities reported on Form 720S, Part I, Line 7.

**Line 2**—Enter net income (loss) from rental real estate activities reported on federal Schedule K, Form 1120S, adjusted to reflect any differences in Kentucky and federal income tax laws.

**Line 3(a)**—Enter the gross income from other rental activities reported on federal Schedule K, Form 1120S.

**Line 3(b)**—Enter the rental expenses reported on federal Schedule K, Form 1120S, adjusted to reflect any differences in Kentucky and federal income tax laws.

**Line 4(a)**—Enter interest income from federal Schedule K, Form 1120S, adjusted to exclude tax-exempt U.S. government interest, if any, and to include interest income from obligations of states other than Kentucky and their political subdivisions.

**Lines 4(b) and 4(c)**—Enter the amount of dividend and royalty income reported on federal Schedule K, Form 1120S.

**Line 4(d)**—Enter net short-term capital gain (loss) from federal Schedule D (Form 1120S) that is portfolio income. Report any gain or loss that is not portfolio income on Line 6, Schedule K, Form 720S.

**Line 4(e)**—Enter net long-term capital gain (loss) from federal Schedule D (Form 1120S) that is portfolio income. Report any gain or loss that is not portfolio income on Line 6, Schedule K, Form 720S.

**Line 4(f)**—Enter any other portfolio income not reported on Lines 4(a) through 4(e), Schedule K, Form 720S.

**Line 5**—Enter net gain (loss) under Section 1231 from federal Form 4797. Do not include net gains (losses) from involuntary conversions due to casualties or thefts on this line. Instead, report them on Line 6.

**Line 6**—Enter all other items of income (loss) of the S corporation not included on Lines 1 through 5. See federal instructions for Schedule K, Form 1120S.

**Line 7**—Enter total contributions paid by the S corporation during its taxable year and attach a schedule showing separately the contributions subject to the 50 percent, 30 percent and 20 percent limitations. These percentage limitations must be applied to the Kentucky amounts rather than the federal amounts.

Also, enter amount of deduction allowable from Schedule HH for the value of leasehold interest of property donated for living quarters for a homeless family. The ordinary charitable contribution deduction must be reduced by any amount attributable to property on which this deduction is taken.

**Line 8**—Enter IRC Section 179 expense deduction from federal Form 4562.

**Line 9**—Enter the expenses related to portfolio income reported on federal Schedule K, Form 1120S, adjusted to exclude expenses related to tax-exempt interest income and other exempt income.

**Line 10**—Enter any other deductions of the S corporation not included on Lines 7, 8 and 9. See federal instructions for Schedule K, Form 1120S.

**Line 11(a)**—Enter the S corporation's deductible interest expense allocable to debt on property held for investment purposes. Property held for investment purposes includes property that produces investment income (interest, dividends, annuities, royalties, etc.). The total amount entered should equal the amount of interest expense reported on federal Schedule K, Form 1120S, adjusted to exclude any interest expense on debts incurred to purchase or carry investment property producing, or held for the production of, U.S. government interest income.

**Lines 11(b)(1) and (b)(2)**—Enter only the investment income included on Lines 4(a), 4(b), 4(c) and 4(f), Schedule K, Form 720S, and only the investment expenses related thereto included on Line 9, Schedule K, Form 720S. See federal instructions for Schedule K, Form 1120S.

**Line 12**—Enter the amount from Schedule UTC, Unemployment Tax Credit, Line 38.

**Line 13**—Enter the amount from Schedule RC, Application for Income Tax Credit for Recycling and/or Composting Equipment, Part II, Line 2.

**Line 14(a)**—Enter the information provided on federal Schedule K, Form 1120S, Line 16(a).

**Line 14(b)**—Enter the amount reported on federal Schedule K, Form 1120S, Line 16(b).

**Line 15**—Enter the total amount of interest income of the S corporation from U.S. government bonds and securities and obligations of Kentucky and its political subdivisions.

**Line 16**—Enter the total amount of any other type of income of the S corporation on which the shareholder is exempt from Kentucky income tax.

**Line 17**—Enter the total amount of nondeductible expenses paid or incurred by the S corporation including, but not limited to, state taxes measured by gross/net income, expenses related to tax-exempt income, etc. Do not include a deduction reported elsewhere on Schedule K, Form 720S, capital expenditures or items the deductions for which are deferred to a later year.

**Line 18**—Enter the amount reported on federal Schedule K, Form 1120S, Line 20.

**Line 19**—Attach schedules to report the S corporation's total income, expenses and other information applicable to items not included on Lines 1 through 18 including, but not limited to, any recapture of Section 179 deduction, gross income and other information relating to oil and gas well properties enabling the shareholder to figure the allowable depletion deduction, and any other information the shareholders need to prepare their Kentucky income tax returns. See federal instructions for Schedule K, Form 1120S, Line 20.

**Line 20**—Enter the amount reported on federal Schedule K, Form 1120S, Line 22.

## Section II

**An S corporation which has all of its property and payroll within Kentucky does not make the computation in Section II and must enter 100 percent on Schedule K-1 (Form 720S), Item D(2).** An S corporation which has property or payroll both within and without Kentucky (multistate S corporation) must compute the percentage of its gross receipts from sales to purchasers or customers in Kentucky or services performed in Kentucky to its gross receipts from sales or services everywhere during the tax year.

The terms "sales" or "services" mean all gross receipts derived from transactions or activities in the ordinary and regular course of the S corporation's trade or business and which are includable in its gross income. Interest, dividends, royalties and gains or losses on the disposition of property acquired, held, owned or used in **the ordinary or regular course of the S corporation's business** are gross receipts used to determine the business ratio. Gross receipts of this kind are included in the Kentucky receipts portion (numerator) of the business ratio if the S corporation is domiciled in Kentucky or the source of such income is in Kentucky. If the S corporation is domiciled outside of Kentucky but the source of such income is in Kentucky, the gross receipts are in the numerator of the business ratio. The denominator of the business ratio is the total gross receipts in the ordinary or regular course of the S corporation's trade or business.

Gross receipts, for determining the business ratio, do not include in either the numerator or the denominator interest, dividends, royalties and gains or losses on the disposition of property held for **other than trade or business purposes**.

Enter the percentage from Line 3 on Schedule K-1 (Form 720S), Item D(2). **NOTE: The receipts reported on Lines 1 and 2 may not be the same as reported by a multistate S corporation on Schedule A.**